

Message Text

SECRET

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45

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

----- 108081

O R 12132#Z DEC 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC IMMEDIATE 4144

INFO AMEMBASSY BANGKOK

AMEMBASSY SAIGON

CINCPAC

COMUSSAG

S E C R E T SECTION 1 OF 3 PHNOM PENH 13838

EXDIS

SECSTATE PASS NSC, SECDEF, CJCS

FOR STATE/AID

E. O. 11652: GDS

TAGS: EGEN, EAID, CB

SUBJECT: HYPERINFLATION IN CAMBODIA

REF: (A) PHNOM PENH 13325/01200Z DEC 73 (B) STATE 242733

1. VERY MUCH APPRECIATE YOUR FAVORABLE COMMENTS ON OUR ANALYSIS AND PROPOSALS. WE ARE QUITE COGNIZANT OF OVERALL ECONOMIC ASSISTANCE FUNDING SQUEEZE BUT THERE IS NO QUESTION THAT SUCCESSFUL IMPLEMENTATION OF THE STRATEGY WE PROPOSE TO DEAL WITH THIS URGENT INFLATIONARY PROBLEM IN CAMBODIA WILL REQUIRE HIGHER ECONOMIC AID LEVELS THAN ORIGINALLY PLANNED. AS POINT OUT IN OUR REFT (A), THE INCREASED REQUIREMENTS COME NOT SO MUCH FROM ANY NEED TO INCREASE ORIGINALLY PLANNED COMMERCIAL IFORT PROGRAM LEVELS BUT RATHER THE NEW AND UNFORE- SEEN REQUIREMENTS OF PAYING FREIGHT ON PL480 COMMODITIES AND GREATLY INCREASED POL PRICES. UNLESS THESE REQUIREMENTS ARE MET BY AN ADD-ON TO THE ECONOMIC AID LEVEL, THE ONGOING COM- Mercial IMPORT PROGRAM WILL NEED TO BE TRUNCATED, WHICH IN TURN WOULD NO DOUBT ADVERSELY AFFECT OUR EFFORTS TO GET

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THE HYPERINFLATION UNDER SOME KIND OF CONTROL.

2. WITH REGARD TO YOUR MORE SPECIFIC COMMENTS WE ARE INCLINED TO AGREE WITH THE POINTS OF VIEW EXPRESSED IN REF (B). FOR EXAMPLE, WE TEND TO ADMIT THAT THERE HAS NOT BEEN A DRASTIC INCREASE IN VELOCITY OF MONEY CIRCULATION AND THAT THE DIMINISHING OF REAL CONSUMER PURCHASING POWER HAS MITIGATED AGAINST SPECULATIVE COMMODITY HOARDING * MOREOVER, ON THE IMPORT SIDE WE HAVE TRIED TO MANAGE THE COMMERCIAL IMPORT PROGRAM SO AS TO AVOID SPECULATIVE COMMODITY HOARDING. NEVERTHELESS, IT IS CLEAR THAT PERSONAL CASH BALANCES HAVE DECLINED IN REAL TERMS, AND MONETARY VELOCITY HAS NO DOUBT INCREASED.

3. IN APPROACHING THIS PROBLEM WE HAD CONSIDERED IMPORTATION OF GOODS WHICH WOULD SUBSTITUTE FOR, OR AUGMENT, THE SUPPLY OF DOMESTICALLY PRODUCED GOODS SUCH AS FISH AND VEGETABLES, ETC. TEMPORARY IMPORTATION FROM TIME TO TIME OF SUCH PRODUCTS FROM #SPJNN VIETNAM MIGHT WELL BE USEFUL DEVICE TO EVEN OUT THE SUPPLY FLOW OF SUCH COMMODITIES. ONE ITEM THAT WE MIGHT VERY WELL CONSIDER WOULD BE DRIED FISH. VEGETABLES, OF COURSE, WOULD RAISE MORE PROBLEMS OF QUALITY, PRESERVATION, ETC. WHILE INCREASING THE EXCHANGE RATE WOULD OF COURSE HAVE AN ADVERSE EFFECT UPON THE IMPORTATION OF SUCH COMMODITIES FROM SEA COUNTRIES, IN THE LARGER ECONOMIC CONTEXT, WE SEE NO RECOURSE BUT TO MOVE THE RATE UP AS RAPIDLY AS POSSIBLE. IF WE MOVE IN THIS DIRECTION, CODE 941 IMPORTS COULD BE CONSIDERED BUT WE WOULD ALSO WISH TO USE ESF FOR THESE PURPOSES. CONTINUAL AND LONG TERM PROVISION OF FAMILY MARKET BASKET COMMODITIES FROM NEIGHBORING COUNTRIES, (WHICH NO DOUBT WOULD REQUIRE SOME AIRLIFT) CANNOT BE VIEWED AS A SUBSTITUTE FOR MORE OR LESS CONTINUAL DOMESTIC SUPPLY AVAILABILITY. THE UNEVENNESS OR INTERDICTION OF SUPPLY HAS AS ADVERSE A PSYCHOLOGICAL IMPACT ON THE PUBLIC AS THE RATE OF PRICE INCREASES. IN TRYING TO DEAL WITH THIS PROBLEM, WE DO INTEND BY MEANS OF OUR REFUGEE RESETTLEMENT PLANS TO INCREASE THE SUPPLY OF THESE ITEMS TO PHNOM PENH AND OTHER URBAN MARKETS.

4. THE HEART OF THE PROBLEM HOWEVER IS RICE AND ITS COST.

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NOT ONLY IS RICE IMPORTANT IN THE CONSUMER BUDGET BUT IT TENDS TO BE A PRICE SETTER. A REDUCTION, IN REAL TERMS, IN THE PRICE OF RICE WILL ALSO PERMIT MORE OF FAMILY INCOME TO BE SPENT ON OTHER COMMODITIES, PROVIDED THEY ARE AVAILABLE. OUR STRATEGY OF QUOTE FLOODING MARKET UNQUOTE WITH RICE IS TO BRING THE PRICE OF IMPORTED RICE DOWN FROM LEVELS REACHED DURING THE SHORTAGES EXPERIENCED IN OCTOBER AND NOVEMBER. WITH THE

ARRIVAL OF SIGNIFICANT AMOUNTS OF RICE IN THE PAST FEW WEEKS, PRICES DO, IN FACT, APPEAR TO BE GOING DOWN. AS FOR THE PRICE OF BATTAMBANG RICE IN THE PHNOM PENH MARKET, WE HAVE ASSUMED THAT FLOODING THE MARKET WOULD HAVE SOME EFFECT BUT THE PRICE OF HIGHER GRADES WILL PROBABLY NOT DROP AS RAPIDLY. CONCURRENT WITH FLOODING THE MARKET WITH U.S. RICE, WE PLAN TO HAVE THE OFFICIAL PRICES FOR RICE INCREASED TO LEVELS NECESSARY TO ATTRACT RICE FROM BATTAMBANG TO PHNOM PENH. ADMITTEDLY, IT WILL BE DIFFICULT TO PREDICT THE PRICE THAT WILL BE REQUIRED TO CLEAR RICE FROM BATTAMBANG. THERE IS EVIDENCE THAT UCCREASES#IN POL PRODUCTS

NOTE BY OC/T: PHNOM PENH 13838 PASSED NSC, NOT PASSED SECDEF, OR CJCS.

NOTE: PHNOM PENH 13838, SECT 1 OF 3, PARAS 3 AND 4 (#) AS RECEIVED. CORRECTIONS TO FOLLOW

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W
----- 108076

O R 121310Z DEC 73
FM AMEMBASSY PHNOM PENH
TO SECSTATE WASHDC IMMEDIATE 4145
INFO AMEMBASSY BANGKOK
AMEMBASSY SAIGON
CINCPAC
COMUSSAG

S E C R E T SECTION 2 OF 3 PHNOM PENH 13838

EXDIS

IN BATTAMBANG WILL INCREASE THE PRICE OF PADDY, WHICH WHEN TRANSLATED INTO RICE ON THE PHNOM PENH MARKET, WOULD BE HIGHER THAN POLITICALLY DESIRABLE. IT MAY BECOME NECESSARY, THEREFORE, TO SUBSIDIZE THE PRICE OF PADDY. BEAR IN MIND THAT WE ARE NOT TALKING OF USING BATTAMBANG RICE AS THE INSTRUMENT FOR FLOODING THE MARKET, BUT RATHER IMPORTED RICE. THE TOTAL AMOUNT OF BATTAMBANG RICE WHICH WE HOPE TO GET DOWN TO PHNOM PENH IS IN THE RANGE OF 50-60,000 METRIC TONS. SINCE

THIS DOES NOT LOOM LARGE IN THE TOTAL REQUIREMENT, IF NECESSARY IT COULD BE SUBSIDIZED.

5. ASSUMING THAT THE BATTAMBANG SURPLUS CAN BE SUCCESSFULLY PURCHASED, THERE WILL INDEED BE A PROBLEM OF TRANSPORTATION TO PHNOM PENH. AS WASHINGTON IS AWARE, WE ARE CONSIDERING STRATEGIES OF MOVING RICE THROUGH THAILAND AS WELL AS TRUCK CONVOY FROM BATTAMBANG TO KOMPONG SHHANG, WITH A RIVE CONVOY FROM THERE TO PHNOM PENH. WE DO NOT BELIEVE, HOWEVER, THAT MUCH RICE WILL ARRIVE IN PHNOM PENH FROM THE NEW CROP UNTIL MARCH OR APRIL. THE MARKET WOULD OBVIOUSLY NEED TO BE FLOODED LONG BEFORE THAT POINT AND, AS STATED WE WOULD USE IMPORTED RICE FOR THIS PURPOSE. WE WOULD ATTEMPT TO FLOOD THE MARKET WHEN WE HAD AT LEAST A
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60-DAY SUPPLY. AT PRESENT IT APPEARS AS IF THIS TARGET WILL BE REACHED BY EARLY JANUARY.

6. OUR PROPOSED PLAN FOR QUOTE FLOODING THE MARKET UNQUOTE WITH RICE DOES NOT INVOLVE ANY APPRECIABLE CHANGE OF TECHNIQUE. THE GOVERNMENT RICE DISTRIBUTION SYSTEM WOULD INCREASE AMOUNTS MADE AVAILABLE FOR DISTRIBUTION THROUGH THE SOUS-ILOTS SYSTEM. AT THE PRESENT TIME, THE GOVERNMENT IS THE PRIMARY CHANNEL FOR THE RELEASE OF RICE TO THE PUBLIC TO THE "SOUS-ILOTS". IN ADDITION THE PRESNET SYSTEM PROVIDES FOR RICE BEING MADE AVAILABLE FROM GOVERNMENT

BACK TO RETAILERS AND THAT COULD BE INCREASED. ONLY A FEW RETAIL OUTLETS ARE NOW RECEIVING RICE FROM THE GOVERNMENT AND SINCE DOMESTIC RICE IS NOW NONEXISTANT IN PHNOM PENH, THE SALE OF RICE THROUGH OTHER PRIVATE MERCHANTS IS NOW NEGLIGIBLE. SOME OTHER TECHNIQUES MAY ALSO BE USED, SUCH AS ADDITIONAL TEMPORARY DISTRIBUTION POINTS AROUND THE CITY, SELLING RICE TO ALL CONSUMERS. THIS WAS DONE FROM TIME TO TIME IN VIETNAM. AS A RESULT OF THE RECENT VISITS OF MCCONNVILLE AND FARSTAD, WE ARE PROPOSING TO THE GKR SEVERAL BASIC CHANGES IN THE DISTRIBUTION OF RICE. THE MOST IMPORTANT OF THESE PROPOSED CHANGES ARE:

A) PLACING THE RESPONSIBILITY FOR RICE DISTRIBUTION TO THE CIVILIAN SECTOR IN PHNOM PENH IN THE HANDS OF ONE ORGANIZATION THEREBY ELIMINATING THE LAYERS THAT HAVE HERE-TOFORE BEEN INVOLVED.

B) ABOLISHING THE PRESENT RATIONING SYSTEM INVOLVING FAMILY CARDS AND REQUIRING INSTEAD THAT EACH PURCHASE BE LIMITED TO 5-10 KILOS.

C) INCREASING THE NUMBER OF RETAIL OUTLETS THAT
WOULD BE ELIGIBLE TO RECEIVE GOVERNMENT RICE.

D) PLACING THE RESPONSIBILITY ON THE CIVILIAN SECTOR
TO DISTRIBUTE RICE TO FANK DEPENDENTS, THEREBY REDUCING
THE AMOUNT OF OVERLAPPING THAT HAS BEEN PREVALENT IN
THE PAST.

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THE THRUST OF THESE CHANGES WILL BE TO SIMPLIFY THE
RICE DISTRIBUTION SYSTEM AND ENABL ANY INDIVIDUAL IN
PHNOM PENH TO BUY AT GOVERNMENT OR RETAIL OUTLETS WITH
THE SOLE PROVISIO THAT EACH PURCHASE WILL BE LIMITED. IF
THE DISTRIBUTION SYSTEM CAN BE SIMPLIFIED WHILE AT THE
SAME TIME SIGNIFICANT AMOUNTS OF RICE INCREASED THROUGH
IT, THE RESULT SHOULD BE A CLOSING OF THE GAP BETWEEN WHAT
WE HOPE TO BE THE NEWEST OFFICIAL PRICE AND THE BLACK
MARKET RATE. WE HAVE BEEN ASSUMING THAT THE GAP CANNOT
BE COMPLETELY NARROWED, THUS THE DIFFERENCE BETWEEN
THE ILLUSTRATIVE 9,000 RIELS AND 8,000 RIELS IN OUR MESSAGE.

7. OUR VIEW THAT AN ADDITIONAL 20,000 MT OF RICE OVER
AND ABOVE WHAT HAS BEEN HERETOFORE PLANNED FOR CAMBODIA
IN 1974 IS THE NET INCREMENTAL AMOUNT NECESSARY TO MAKE OUR
STRATEGY WORK IS PREDICATED ON THAT AMOUNT BEING ROUGHLY
A ONE MONTH'S SUPPLY FOR PHNOM PENH. WE COCLUDE THAT A NET
INJECTION OF AN ADDITIONAL MONTH'S SUPPLY INTO THE
DISTRIBUTION SYSTEM AND CONSUMER HANDS, WOULD PROVIDE
SUFFICIENT ADDITIONAL STOCK LEVELS TO AVOID ERRATIC CHANGES
IN THE RICE PRICE, AND THE CONCOMITANT RATCHET EFFECT
WHICH ALWAYS CONCURS IN FORCING UP PRICE LEVELS OVER TIME.
NOTE THAT IN THE FIRST MONTH GROSS INJECTION MIGHT BE LARGER.

8. WITH REGARD TO GOVERNMENT SALARY INCREASES, WE TEND
TO AGREE WITH THE THRUST OF REFTEL (B) THAT 15 PERCENT WOULD
NOT BE SUFFICIENT FOR ALL OF 1974. OUR THINKING WAS

NOTE BY OC/T: PASSED NSC, NOT PASSED CJCS, SECDEF.

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 (ISO) W

----- 114234

O R 121310Z DEC 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC IMMEDIATE 4146

INFO AMEMBASSY BANGKOK

AMEMBASSY SAIGON

CINCPAC

COMUSSAG

S E C R E T SECTION 3 OF 3 PHNOM PENH 13838

EXDIS

THAT THE 15 PERCENT WOULD TAKE PLACE IMMEDIATELY UPON INITIATION OF THE PROGRAM, IN EARLY JANUARY, AND THAT THE SUBJECT WOULD BE KEPT UNDER VERY CAREFUL REVIEW IN SUCCEEDING MONTHS. NEGOTIATIONS WITH THE GKR MAY, OF COURSE, RESULT IN A LARGER SALARY INCREASE.

9. WITH REGARD TO THE INTRODUCTION OF A FINANCIAL EXCHANGE RATE, WE ARE NOT AT THIS TIME INCLINED TOWARD SPECIAL OR MULTIPLE RATES, BUT WOULD NOT RULE THAT OUT. WE WOULD MUCH RATHER SEE THE FREE MARKET RATE WORK. OUR STRATEGY IS TO ALLOW THE NOUVEAU MARCHE DESCHANGES TO FUNCTION AS ORIGINALLY PLANNED AS A MARKET MECHANISM TO SET THE EXCHANGE RATE UNDER A REASONABLY LIBERAL IMPORT REGIME. THIS WILL REQUIRE THAT EXCHANGE RATE MANAGEMENT BE CHANGED FROM WHAT IT HAS BEEN DURING THE LAST MANY MONTHS. WASHINGTON SHOULD NOT BE UNDER ANY ILLUSIONS BUT THAT THIS WILL BRING US INTO CONFRONTATION WITH THE PRESENT IMF RESIDENT REPRESENTATIVE, FOR FRANKLY WE BELIEVE HE HAS MISMANAGED THE NOUVEAU MARCHE DES CHANGE. DURING LAST SEVERAL MONTHS WE HAVE HAD SEVERAL CRISES IN FOREIGN EXCHANGE AVAILABILITY, AND HAVE SUCH A CRISIS, ONCE AGAIN, AT THIS TIME. THE IMF RES REP HAS, WE THINK, UNDERESTIMATED THE DAMAND FOR FOREIGN EXCHANGE AND CONTINUES TO DO SO. THE GOVERNMENT AND THE CENTRAL BANK

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WOULD, OF COURSE, LIKE TO KEEP THE EXCHANGE RATES STULE

AND THE IMF RES REP OFFERS THEM SUFFICIENT COMFORT IN ALLOWING THEM TO BELIEVE IT IS POSSIBLE FOR THEM TO RESIST REALITY. CONSEQUENTLY, FOREIGN EXCHANGE CRISIS. IT

SHOULD BE POINED OUT THAT EXCHANGE RATE IS NOT THE ONLY PHASE ON WHICH THE IMF RES REP HAS BEEN IN CONFRONTATION WITH US. WITHIN THE COUNCILS OF THE GKR FOR EXAMPLE HE HAS OPPOSED COMBAT TROOP PAY, FREE RICE FOR COMBAT TROOPS AND THE RECENT DRASTIC BUT NECESSARY INCREASES IN POL PRICES. WE HAVE LONG HOPED THAT WE AND THE FUND REPRESENTATIVE HERE COULD WORK TOGETHER IN CONCERT. BUT WE BELIVE THAT TO POSTULATE SUCH A PROSPECT FOR THE FUTURE WOULD BE WISHFUL THINKING.

10. ACTION REQUESTED. WE EXPECT PRIME MINISTER DESIGNATE LON BORET TO RETURN THIS WEEKEND. MILITARY, SOCIAL AND POLITICAL BUMPINESS HERE DESCRIBED IN SEPTELS REQUIRE IMMEDIATE FORMATION OF CABINET, WITH A POWERFUL ECONOMIC PROGRAM INCLUDED IN ITS PLATFORM. WE THUS BELIEVE WE MUST BE READY TO TALK IN DETAIL ON THE ECONOMIC PACKAGE PROPOSED IN REFTEL (A) BY START OF BUSINESS DECEMBER 17.

11. AS INCIDATED, WE MUST ERST MAKZVK D
EH HARD EVXWKT#
TO BRING THE IMF ALONRO WE WOULD LIKE YOUR AUTHORITY TO BEGIN DETAILED DISCUSSION WITH EVERS NO LATER THAN 15 DECEMBER. REGRET THIS RUSH, BUT BELIEVE THAT NOT ONLY IS THE NEED FOR A NEW ECONOMIC PROGRAM COMPELLING IN THESE CIRCUMSTANCES, BUT THAT OUR LEVERAGE ON THE GKR IS NOW AT A MAXIMUM.
ENDERS

NOTE BY OC/T: PASSED NSC; NOT PASSED CJCS, SECDEF.
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